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Impact Investing: Mapping Families' Interests and Activities

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IMPACT INVESTING:
**MAPPING FAMILIES' INTERESTS
AND ACTIVITIES**



University of
Zurich^{UZH}

Center for Sustainable Finance
& Private Wealth



THE IMPACT

The ImPact is a global membership community of families committed to impact investing. The mission of The ImPact is to help families make more impact investments more effectively.



**University of
Zurich** ^{UZH}

**Center for Sustainable Finance
& Private Wealth**

The Center for Sustainable Finance and Private Wealth (CSP) is an academic research institution at the University of Zurich, Switzerland's largest university. The mission of CSP is to research the most pressing issues, and to train wealth owners and investment professionals, in order to drive more capital towards effective means for sustainable development. See www.csp.uzh.ch

IMPACT INVESTING:

MAPPING FAMILIES' INTERESTS AND ACTIVITIES

FOREWORD

Moving private wealth to well-targeted impact investments is necessary to achieve sustainable development. An ever growing number of asset owners want to deploy capital for positive impact, and wealth managers want to offer the right impact investing solutions to their clients. The impact investing market is growing rapidly and diversifying steadily in its offerings.

Yet, the impact investing space remains inefficient. Asset owners and wealth managers need more clarity on where to focus their attention: which impact themes, geographies, and asset classes are oversaturated and where do we need to drive new and varied solutions? How can wealth managers better meet the needs and interests of asset owners?

This work is the first substantial step towards clarifying significant market gaps through "heat maps" that identify under-invested market segments and highlighting direct feedback from ultra high net worth investors on the ways that wealth managers can better serve their impact investment objectives.

Join us—towards impact!

Dr. Falko Paetzold, Initiator & Managing Director, Center for Sustainable Finance and Private Wealth (CSP), University of Zurich

Sam Bonsey, Chief Operating Officer, The ImPact



OVERVIEW

Impact Investing: Mapping Families' Interests and Activities is part of a multi-year effort to study a problem that many ultra high net worth (UHNW) families have identified as critical, timely, and important: the existing impact investing opportunity set does not fully match their specific investment interests.

The study highlights families' responses to two sets of questions:

1. Market gaps—In what asset classes, geographies, and impact sectors do families want to invest but lack sufficient investment opportunities? Are there areas in the impact investing market that are oversaturated with investment opportunities.

2. Satisfaction with financial intermediaries—How satisfied are families with the products and services provided by the financial institutions that serve them? How can wealth managers and investment advisors improve their impact investment offerings?

The goal of the study is to amplify the collective voice of families and to send a signal to financial intermediaries on the interests of wealth owners and possible opportunities for future impact investment products and market development.

This 2018 survey is the first of three annual surveys that The ImPact is conducting with grant support from the John D. and Catherine T. MacArthur Foundation and academic support from the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich and the University of Hamburg.

In this pilot study, we surveyed UHNW families that have a family office or family foundation based in the United States. The survey was distributed by The ImPact and CSP in October 2018. Subsequent surveys launched in the Fall of 2019 and 2020 will be expanded globally to include UHNW families from around the world. Please reach out to The ImPact (info@the-impact.org) if you would like to participate in the upcoming survey. Participation in the survey is fully anonymous.

We received responses from 32 UHNW families and conducted interviews with 10 families to obtain additional qualitative information. While we are mindful of the small sample size of this pilot study, we are sharing observations and insights that stem from investors with very substantial investment portfolios, and what we believe are important initial findings that we will further explore in subsequent surveys.

FOUR KEY INSIGHTS

1. The pilot survey confirmed that there exists a gap between families' impact investment interests and their current capital deployed for impact.
 - a. The **three sectors of greatest investor interest** are Agriculture and Food, Education, and Energy and Resource Efficiency. Market demand for Energy and Resource Efficiency investments is fairly well met; there are significant gaps between investor interest and active investment in the Agriculture and Food and Education sectors.
 - b. The **most significant areas of unmet investor interest** are in global Water investments, Agriculture and Food investments in the United States, and investments to provide products and services to Base of the Pyramid customers in emerging markets.
 - c. There are **no obvious overly saturated sectors**. Families did not come to any consensus on whether and which segments of the impact investment market are oversaturated with opportunities.
2. The gap between families' interests and existing investments depends on their current experience level with impact investing and whether they can find investable opportunities that match their needs.
 - a. **Knowledge gap**—Some families remain optimistic that they can deploy capital in impact investments but they are still coming up the learning curve. These families who are still in a “learning mode” find it more challenging to deploy capital when their investment advisors are also unfamiliar with or unaware of impact investment opportunities.
 - b. **Product gap**—Other families are actively looking for investments but are not finding investable opportunities that meet their needs. This barrier, for some families, could be related to a lack of knowledge. But the pilot survey also highlighted that even experienced investors are not finding suitable opportunities in some market segments.
3. Families express dissatisfaction with their advisors and staff who lack specialized impact investing capabilities but are generally satisfied with their advisors and staff who are impact specialists.
 - a. **Dissatisfaction applies to bankers and staff alike**—Families are both dissatisfied with their external private banks or wealth managers as well as their in-house staff who lack specialized impact investing capabilities.
 - b. **Satisfaction with impact experts, if they are present**—However, families are generally satisfied with their in-house impact specialists and with their financial advisors or wealth managers who have impact investing capabilities.
 - c. **Advisors need to come up the learning curve**—Families would like to see their financial advisors or wealth managers develop more impact expertise and impact-specific investment strategies. Families also want to see improved due diligence capabilities and higher quality deal flow for impact investments.
4. Looking ahead, families want to deploy more assets towards impact.
 - a. **Low percentage of assets are currently deployed in impact investments**—Today, the majority of the families surveyed deployed less than 20% of their investable assets in impact investments. This is in line with many families indicating that they are early on in their impact investing journey and are still in a “learning mode.”
 - b. **There is a rising trend**—More than half of the families plan to invest more than 90% of their investable assets in impact in the next ten years. This is also in line with a generally positive sentiment from families that it is only a matter of time before they are able to find suitable impact investment products, enabling their investments to match their interests.

KEY INSIGHTS EXPLAINED

Key Insight 1—There is a gap between families' impact investment interests and capital deployment.

We asked respondents if there is a gap between their impact investment interests and their current deployment for impact. 75% of the respondents responded "Yes." Their responses are corroborated by findings from the pilot survey that the top three sectors of greatest investor *interest* do not match the top three sectors with highest current investment *activity*.

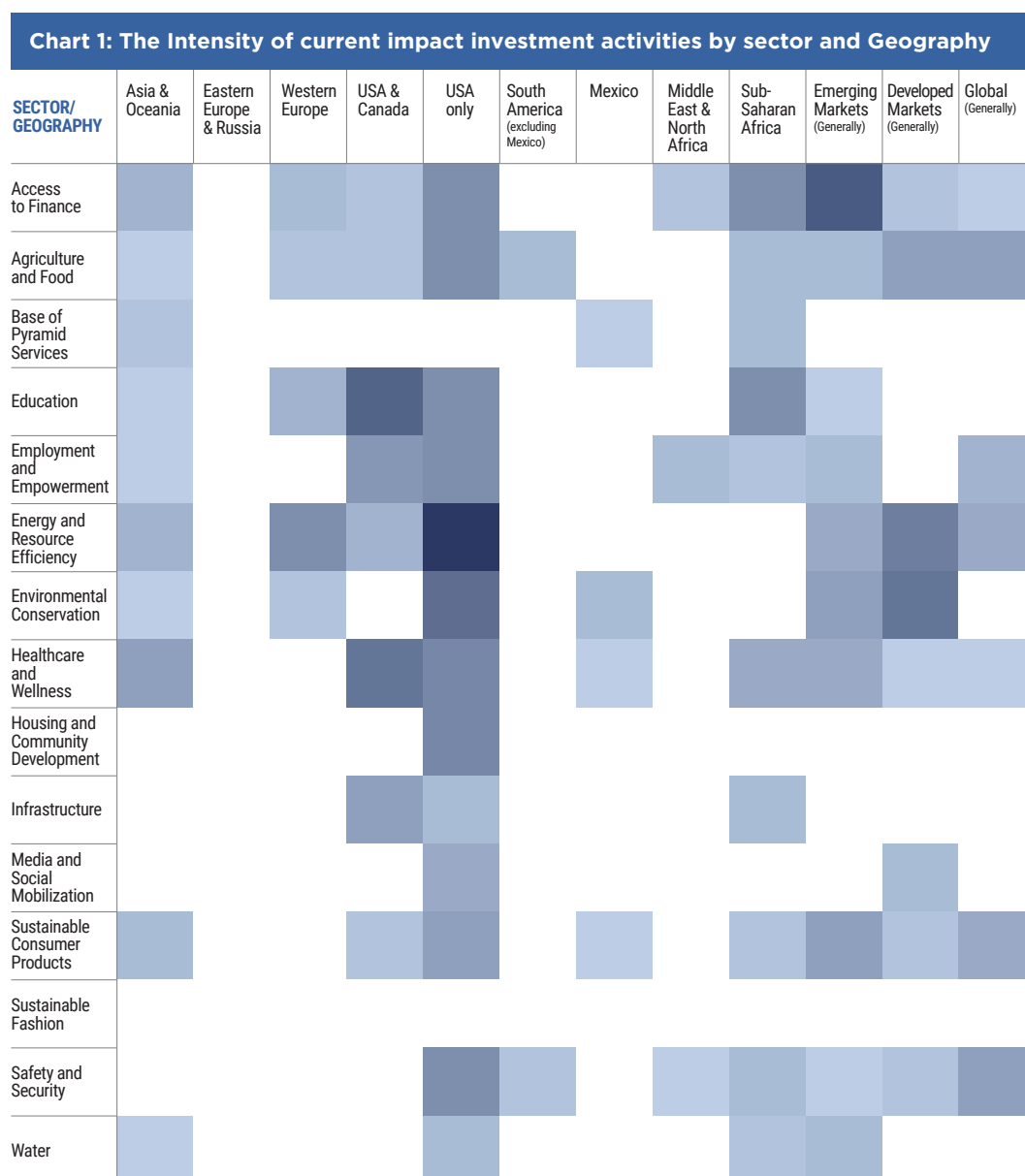
The three sectors of greatest investor interest are Agriculture and Food, Education, and Energy and Resource Efficiency. Market demand for Energy and Resource Efficiency investments seem to be fairly well met with a relatively high level of current investment in the sector. But there are still significant gaps between the level of investor interest and the current level of investment in the Agriculture and Food and Education sectors.

Families are primarily interested and invested in their own "backyard." Respondents are mainly *invested* in their home country, the United States, and at the same time, are most *interested* in investment opportunities in the United States specifically and North America generally. Respondents also expressed specific interest in investment opportunities in their neighboring region—South America—as well as general investment opportunities globally and in emerging markets.



Mapping Impact Investment Activity

The three sectors with the highest levels of *current investment activity* among survey respondents are: 1) Energy and Resource Efficiency, 2) Access to Finance, and 3) Healthcare and Wellness. The heat map below charts current investment activity by sector and geography. It shows that the market segment with the greatest investment activity is the Energy and Resource sector in the United States.



Interpreting the heat map showing current impact investment activities

White indicates zero current investment, with increasing levels of investment activity indicated by darker shades of blue. For example, respondents are currently not invested in the Access to Finance sector in Eastern Europe and Russia. There is a relatively high level of investment in the Access to Finance sector in emerging markets (generally). The highest level of investment is in the Energy and Resource Efficiency sector in the United States.

Mapping Impact Investment Interest

The sectors of greatest investment *interest* to the families we surveyed are: 1) Agriculture and Food, 2) Education, and 3) Water sectors. These are sectors that families are interested in but currently not invested in. As shown in the heat map below, there is a particularly strong interest in Agriculture and Food investment opportunities in the United States and global investment opportunities in the Water sector.



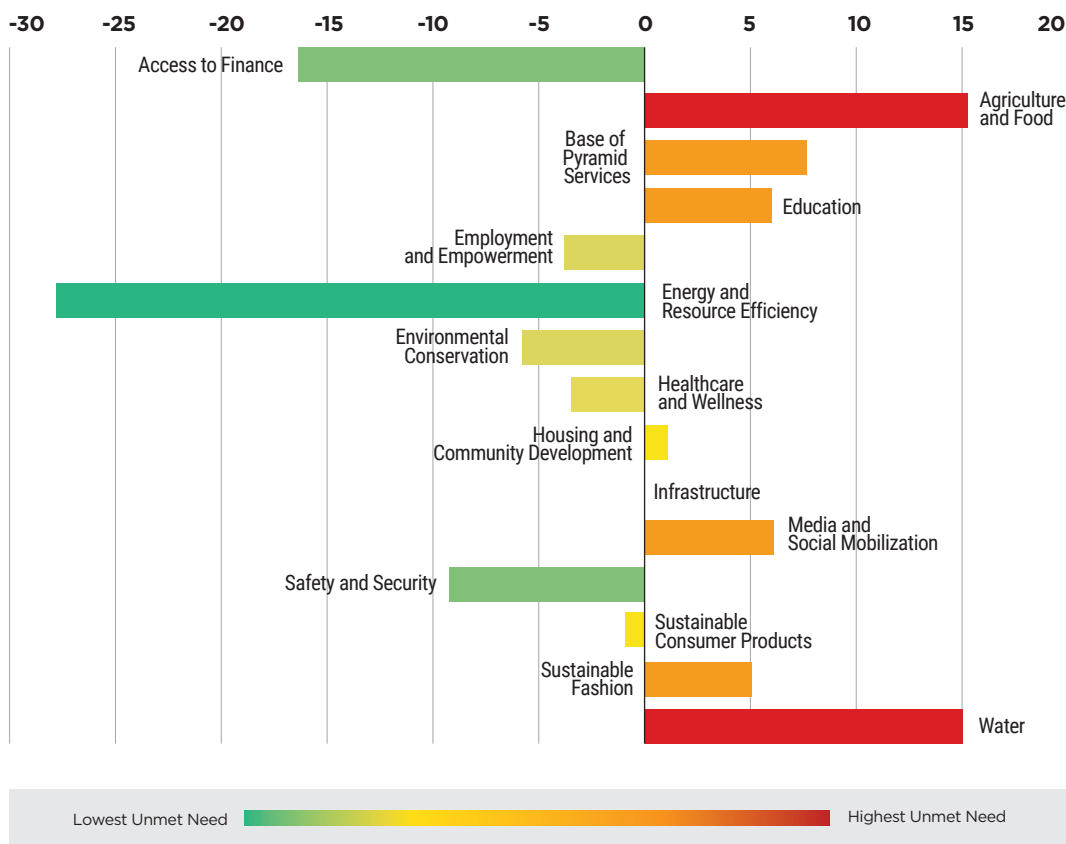
i **Interpreting the heat map showing impact investment interest**
 White indicates zero investment interest, with increasing levels of interest indicated by darker shades of blue. For example, respondents did not indicate any interest in the Access to Finance sector in Asia and Oceania. Respondents indicated that they are most interested in investing in the Agriculture and Food sector in USA only.

Mapping Market Gaps

The pilot survey showed that in certain sectors, such as Education, high levels of investor interest are aligned with relatively high levels of current investment activity. In other sectors, though, we see particularly high levels of interest but low levels of current investment activity. These potential "market gaps" are the largest in the following sectors, as illustrated in the chart below.

1. Water—particularly in global investment opportunities
2. Agriculture and Food—particularly in the United States
3. Base of Pyramid Services—particularly in emerging markets, Asia, Middle East, and Africa

Chart 3: Gap between interest and current investment activity across impact sectors



Interpreting the gap between interest and current investment activity across impact sectors

The chart highlights the extent of the gap between families' interest and current investment activities in each impact sector, regardless of geographies. The sector with the largest positive number has the largest gap between levels of interest and levels of current investment activity. When a sector has a negative score, the level of current investment activity exceeds the level of investment "interest without investment" in that sector. To understand how the scores are calculated, please see the Methodology section at the end of the report.

Mapping Market Saturation

Overall, there was no consensus on whether the impact investment market is oversaturated with opportunities. The majority of respondents generally did not think that the market is oversaturated.

However, some respondents think there is an oversaturation of investment opportunities in the Energy and Resource sector, especially in renewable energy. This is in line with the concentration of current investments in the Energy and Resource sector in the United States.

Other respondents indicated that they see a proliferation of investment opportunities in the microfinance sector, in venture capital, and in certain public equity products. However, even within these sectors or asset classes where there is a large *quantity* of products, there remains an unmet need for products of sufficient *quality* to satisfy the demands of sophisticated impact investors.

Key Insight 2—Insufficient knowledge and a lack of products are the main drivers for the gap between families’ interest and existing investments.

As noted above, 75% of respondents said there is a gap between their current impact investment interests and their current capital deployment for impact. The reason for this depends on the families’ current experience level with impact investing and whether they can find investable opportunities that match their needs.

Nearly 50% of the respondents who indicated a gap between their interests and their capital deployment are actively looking for investments but acknowledged they are still coming up the learning curve. These families are early in their impact investing journey and are more in a “learning mode” than an “investing mode.”

The majority of these families who are newer to impact investing indicated that they are not seeing investment opportunities in their sectors or geographies of interest and that their advisors or staff are also unfamiliar with impact investing and the available opportunities.

The other 50% of respondents, who are more experienced and actively looking for investments, are also reporting a limited availability of impact products that meet their investment standards across sectors, geographies, and financial return expectations. Some of these more experienced investors have also indicated that their advisors or staff are unfamiliar with impact investing and the available opportunities.

Despite having a gap between their interests and existing investments, 72% of all these families indicated that they are optimistic and believe it is only a matter of time before their investments match their interests.




“We do see a proliferation of ETF products in the broader market space and also specifically in the impact space. But there need to be products or funds that offer a higher level of active management and involvement; not just passive strategies.”

—Outsourced Chief Investment Officer

“In the public markets, we do see a lack of investable products that really take gender equity to the next level. We spend a lot of time engaging managers to help them think through how gender can be a component of their traditional analysis.”

—Managing Director, Family Office



“My interest at this point is still more aspirational as opposed to being in the execution phase. It was through my business experience in the energy sector that triggered me to question what I can do with the rest of my private investments because I would like my dollars be productive beyond just delivering a financial return.”

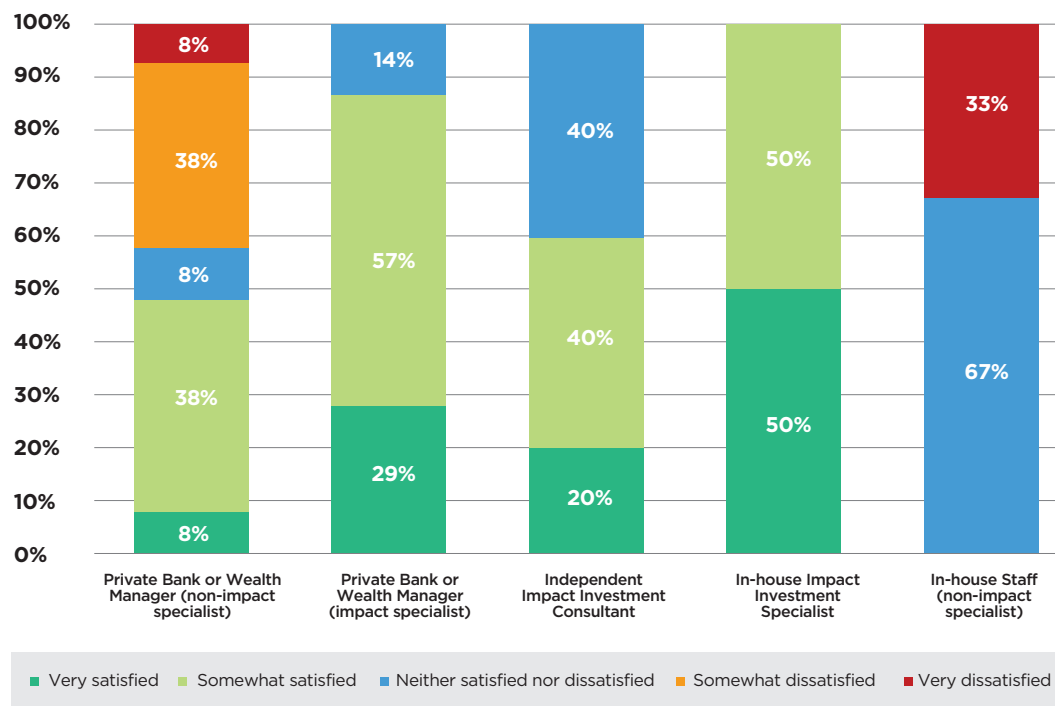
—Family principal

Key Insight 3—Families are generally satisfied with advisors and staff who specialize in impact investments and only express dissatisfaction with those who lack impact capabilities.

Respondents seem the most satisfied with the services offered by their in-house impact specialists. Respondents are also mostly satisfied with the product offerings of their private banker, wealth manager, or independent consultant who specializes in impact investments.

On the other hand, respondents only expressed true dissatisfaction with the product offerings from their conventional wealth managers who lack specialized impact investment capabilities—this applies to both external wealth managers and in-house staff. This dissatisfaction is represented by the orange and red segments in the chart below.

Chart 4: Level of satisfaction with impact product offerings



Interpreting the level of satisfaction with impact product offered by financial intermediaries

“Private Bank or Wealth Manager (non-impact specialist)” refers to a private bank or wealth management firm that does not have specialized impact investing capabilities. On the other hand, “Private Bank or Wealth Manager (impact specialist)” refers to a private bank or wealth management firm that specializes in or has impact investing capabilities. For example, 8% of the survey respondents are very dissatisfied with the impact products offered by their non-specialist private bank or wealth manager. At the same time, 8% of the survey respondents reported that they are very satisfied with the impact products offered by their non-specialist private bank or wealth manager.

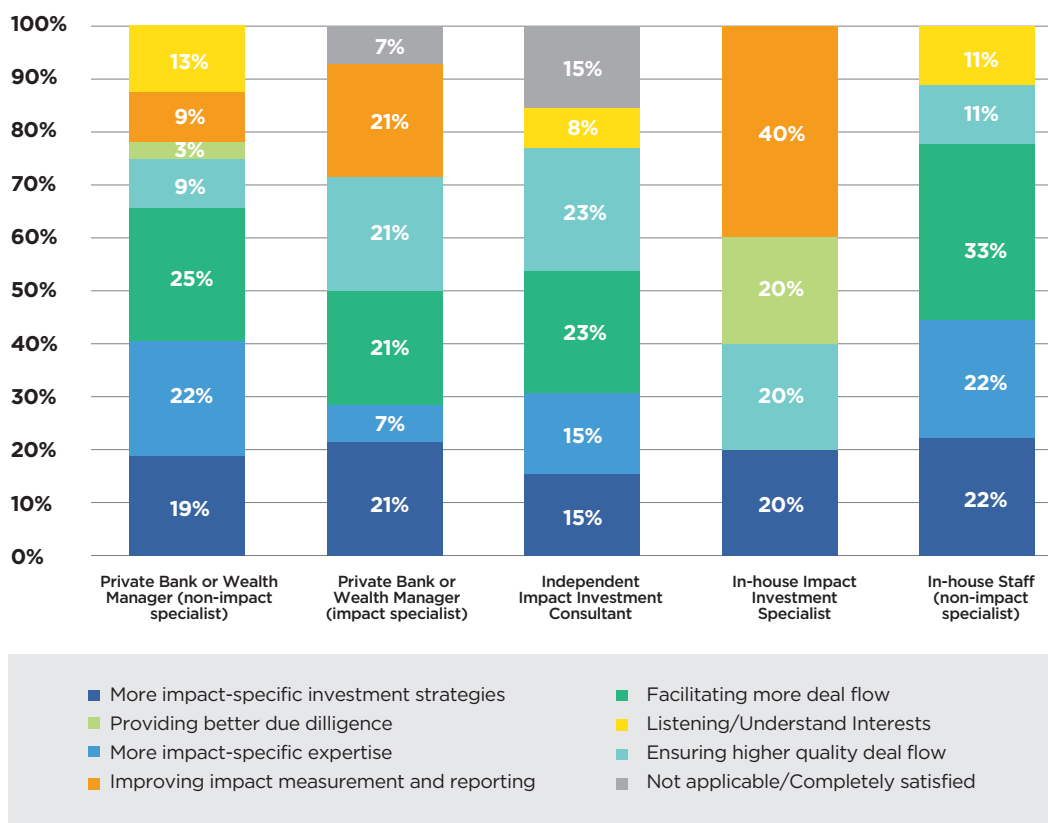
Respondents would like to see the following improvements from their financial advisor, consultant, and in-house staff:

1. Develop more impact expertise and more impact-specific investment strategies, represented by the blue segments in Chart 5 below.
2. Facilitate more and higher quality deal flow and due diligence for impact investments, represented by the green segments in Chart 5 below.
3. Improve impact measurement and reporting, represented by the orange segment in Chart 5 below.

“We are further ahead than our advisors are at this point. There is a mismatch between what we want and what they are capable of delivering. But I hesitate to put it all on our advisors because they have been very helpful—they manage the paperwork and they help out with the [financial] due diligence. I think we have a pretty good approach for now.”

—Family principal

Chart 5: How advisors and consultants can improve their impact services



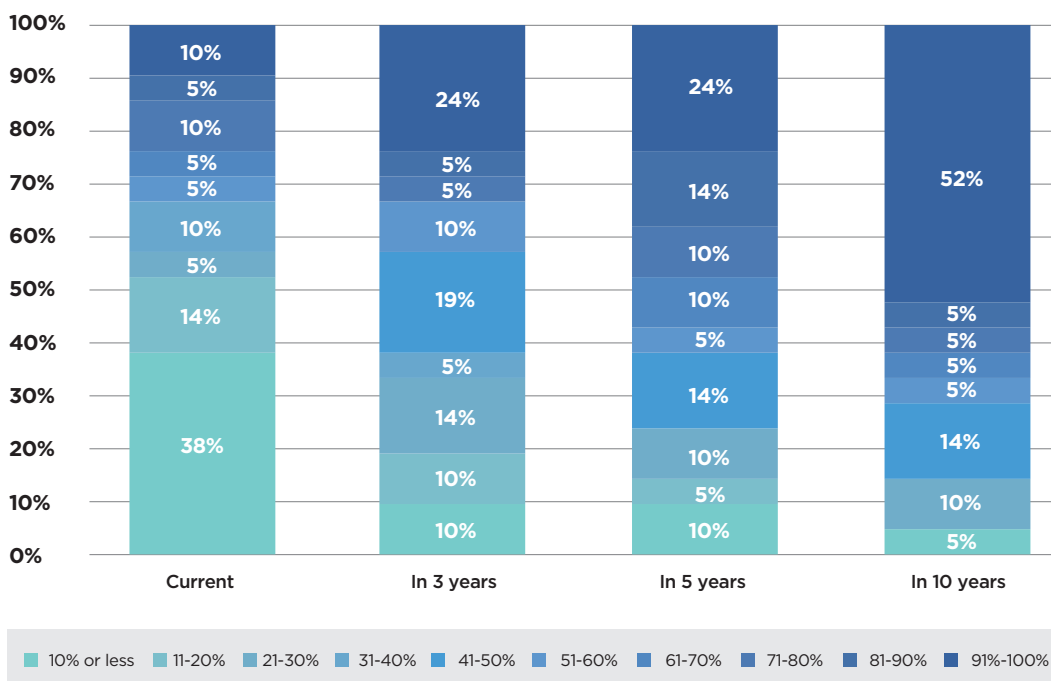
i Interpreting how advisors and consultants can improve their impact services
“Private Bank or Wealth Manager (non-impact specialist)” refers to a private bank or wealth management firm that does not have specialized impact investing capabilities. On the other hand, “Private Bank or Wealth Manager (impact specialist)” refers to a private bank or wealth management firm that specializes in or has impact investing capabilities. For example, 19% of the respondents would like to see their non-specialist private bank or wealth manager develop more impact-specific investment strategies, and 22% of respondents would like them to develop more impact-specific expertise.

LOOKING AHEAD

Our data points to continued steady growth of the impact investing market; respondents across the board want to increase their percentage of investable assets deployed in impact. Many of the respondents have fewer than 20% of their investable assets in impact investments, which is in line with many respondents indicating that they are early on in their impact investing journey.

We see an upward trend with more than half of the respondents planning to invest over 90% of investable assets in impact. This is also in line with a generally positive sentiment where respondents believe that it is only a matter of time before their investments match their interests as they are actively pursuing suitable investment opportunities. But continued education of families and their advisors and wealth managers remains an essential aspect in enabling families to deploy capital.

Chart 6: Trend of percentage of investable assets deployed in impact



We are excited to launch the second annual survey in Fall 2019. We believe the insights from the survey can help families:

1. Draw attention to underserved impact investing sectors and geographies.
2. Send clear demand signals and identify areas of unmet interests to financial intermediaries.
3. Form a collective voice to drive external bankers, advisors, and managers to improve their impact investment capabilities and product offerings.

Please reach out to The ImPact (info@theimpact.org) if you would like to participate in the upcoming surveys. All survey data is fully anonymized.

METHODOLOGY

Respondents and interviewees answered questions regarding their impact investing activities and interests, where they see gaps and areas of product saturation, and their level of satisfaction with financial advisors, managers, and impact investment products. All survey data is self-reported, fully anonymized, and is in relation to families' investment portfolios, including personal, family office, and family foundation portfolios.

The survey employed ranking questions, asking respondents to rank their top three options in terms of sectors, geographies, and asset classes of their current impact investments, and where they are interested but not yet invested. In analyzing the results, we applied weights to their responses to amplify the relative importance of their selections. I.e., we use a score as follows: (number of respondents that ranked the option first \times 3) + (number of respondents that ranked the option second \times 2) + (number of respondents that ranked the option third \times 1).

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Academic Research

The Center for Sustainable Finance and Private Wealth at the University of Zurich and the University of Hamburg provided academic support and rigor to the survey. The ImPact would like to recognize the contributions of various individuals at the University of Zurich and the University of Hamburg. We thank Sarah Carroux from the University of Hamburg for helping design and manage the survey. We thank Robin Steiger from the University of Zurich for helping collate and analyze the survey results. We thank Falko Paetzold, Director of CSP, for leading the collaboration from the side of the universities and for providing invaluable feedback and insights throughout the survey creation, results analysis, and report drafting process.

Beta testers

The survey instrument was beta-tested by several members of The ImPact. Additionally, several members of the team at The ImPact, CSP, and University of Hamburg beta-tested the survey instrument. We are grateful for their valuable feedback that helped improve the design of the survey instrument.



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